CAPITAL

19. PROPERTY, PLANT AND EQUIPMENT

Movements on Balances

Depreciation
The following useful lives and depreciation rates have been used in the calculation of depreciation:

-	Other Land and Buildings	20 - 50 years
-	Vehicles, Plant, Furniture & Equipment	5 - 10 years
-	Infrastructure	25 years

Amortisation
Intangible Assets are amortised over 5 years

Capital Commitments
As at 31st March 2015, the Authority has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years totalling an estimated £34m. Similar commitments for 2014/15 were approximately £24m.

Effects of Changes in Estimates

There are no material changes to the basis of estimation.

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2014	332,461	23,078	150,417	0	2,000	7,884	515,840	54,002
Additions	22,382	1,886	7,029	1,199	0	358	32,854	223
Revaluation increase/(decreases) recognised in the Revaluation Reserve	1,647	0	0	0	0	0	1,647	1,572
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(22,811)	0	0	(1,336)	0	0	(24,147)	(872)
Derecognition - Disposals	0	(401)	0	0	0	0	(401)	0
Derecognition - Other	(5,690)	0	0	0	0	0	(5,690)	0
Recognition	983	0	0	0	0	0	983	0
Assets reclassified (to)/from held for Sale	(7,899)	0	0	0	0	0	(7,899)	0
Completed assets under construction	7,884	0	0	0	0	(7,884)	()	0
Other	0	(1,782)	0	137	0	0	(1,644)	2,370
At 31 March 2015	**328,956**	**22,782**	**157,446**	**0**	**2,000**	**358**	**511,542**	**57,295**
Accumulated Depreciation and Impairment								
At 1 April 2014	2,436	10,796	55,607	0	0	0	68,839	2,446
Depreciation Charge	7,702	3,460	5,914	0	0	0	17,075	1,185
Depreciation written out to the Revaluation Reserve	(5,787)	0	0	0	0		(5,787)	(3,631)
Derecognition - Disposals	(163)	(129)	0	0	0	0	(293)	0
Derecognition - Other	(131)	0	0	0	0	0	(131)	0
Other changes		(1,782)	0	0	0	0	(1,782)	0
At 31 March 2015	**4,056**	**12,345**	**61,521**	**0**	**0**	**0**	**77,922**	**0**
Net Book Value								
At 31 March 2015	**324,900**	**10,436**	**95,925**	**0**	**2,000**	**358**	**433,620**	**57,295**
At 31 March 2014	**330,025**	**12,282**	**94,809**	**0**	**2,000**	**7,884**	**447,000**	**51,557**

Comparative Movements in 2013/14:

	Other Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Assets under construction £000	Total Property, Plant and Equipment £000	PFI Assets Included in Property, Plant and Equipment £000
Cost or Valuation								
At 1 April 2013	331,598	21,926	143,307	0	2,000	14,055	512,886	53,340
Additions	11,664	1,775	7,082	471	0	5,996	26,988	0
Revaluation increase/(decreases) recognised in the Revaluation Reserve	1,996	0	0	0	0	0	1,996	897
Revaluation increase/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(17,872)	0	0	(536)	0	0	(18,408)	(235)
Derecognition - Disposals	(6,363)	(165)	0	0	0	0	(6,528)	0
Derecognition - Other	(360)	(458)	0	0	0	0	(818)	0
Recognition							0	0
Completed assets under construction	11,867	0	28	0	0	(11,895)	0	0
Other	(69)	0	0	65	0	(272)	(276)	0
At 31 March 2014	**332,461**	**23,078**	**150,417**	**0**	**2,000**	**7,884**	**515,840**	**54,002**
Accumulated Depreciation and Impairment								
At 1 April 2013	9,639	7,800	49,957	0	0	0	67,397	2,056
Depreciation Charge	6,518	3,595	5,651	0	0	0	15,764	1,034
Depreciation written out to the Revaluation Reserve	(13,626)	0	0	0	0	0	(13,626)	(644)
Derecognition - Disposals	(81)	(142)	0	0	0	0	(223)	0
Derecognition - Other	(14)	(457)	0	0	0	0	(471)	0
Other changes	0	0	0	0	0	0	0	0
At 31 March 2014	**2,436**	**10,796**	**55,608**	**0**	**0**	**0**	**68,841**	**2,446**
Net Book Value								
At 31 March 2014	**330,025**	**12,282**	**94,809**	**0**	**2,000**	**7,884**	**447,000**	**51,557**
At 31 March 2013	**321,959**	**14,126**	**93,350**	**0**	**2,000**	**14,055**	**445,489**	**51,285**

20. INVESTMENT PROPERTIES

At 31st March 2015, the Council did not hold any investment properties.

21. INTANGIBLE ASSETS

The London Borough of Merton accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the London Borough of Merton. The useful life assigned to the major software suites used by the London Borough of Merton is 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.693m charged to revenue in 2014/15 (£0.607m in 2013/14) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2013/14 Intangible Assets £000	2014/15 Intangible Assets £000
Balance at start of year:		
Gross carrying amounts	3,324	4,027
Accumulated amortisation	(1,524)	(2,131)
Net carrying amount at start of year	**1,800**	**1,896**
Additions:		
Purchases	703	436
Amortisation for the period	(607)	(693)
Net carrying amount at end of year	**1,896**	**1,639**
Comprising:		
Gross carrying amounts	4,027	4,463
Accumulated amortisation	(2,131)	(2,824)
	1,896	**1,639**

22. HERITAGE ASSETS

The authority's collection of Heritage Assets consists of Regalia and Art. Much of the art is on display within the Civic Centre and Libraries. The Regalia is not generally accessible other than when in use and the higher value items are stored securely. All Heritage Assets are held on the Balance Sheet at insurance value, which is based on market values. The valuations were carried out during 2011/12 by qualified external valuers, Webb Valuations Fine Art Ltd, who specialise in Fine Art and Jewellery. There are four items within the Art collection and six items within the Regalia with a valuation of £20,000 or above. The highest value item is the Chain of Office of the Mayor of the former Borough of Wimbledon, which has been valued at £84,000.

The following table shows the carrying value of Heritage Assets held by the authority at the Balance Sheet date:

	Art Collection £000	Regalia & Ceremonial £000	Total Assets £000
Cost or Valuation			
31 March 2011	197	472	**669**
31 March 2012	197	472	**669**
31 March 2013	197	472	**669**
31 March 2014	197	472	**669**
31 March 2015	197	472	**669**

23. ASSETS HELD FOR SALE

	Non Current	
	2013/14 £000	2014/15 £000
Balance outstanding at start of year	**231**	**231**
The balance related to Eastfields Road property, which was sold during 2014/15.		(231)
Balance outstanding at year end	**231**	**0**

	Current	
	2013/14 £000	2014/15 £000
Balance outstanding at start of year	**0**	**0**
Recognition	0	425
Assets reclassified (to)/from Other Land & Building	0	7,899
Assets reclassified (to)/from Non Current Asset Held for Sale	0	231
Derecognition - Disposals	0	(1,267)
The balance relates to property, plant and equipment- Car Parks at Wimbledon and Sibthorpe Road to be sold to developer.		
Balance outstanding at year end	**0**	**7,288**

24. IMPAIRMENT LOSSES

The authority carried out an impairment review in 2014/15, the result of which was that there were no impairment losses recognised in 2014/15.

25. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the London Borough of Merton, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the London Borough of Merton that has yet to be financed. The CFR is analysed in the following table:

	2013/14 £000	2014/15 £000
Opening Capital Financing Requirement	213,525	214,060
Capital Investment		
Property, Plant and Equipment	26,987	32,854
Intangible Assets	703	437
Revenue Expenditure Funded from Capital Under Statute	3,334	3,768
Loans to public sector organisations	600	59
REFCUS Adjustment	(277)	0
Sources of Finance		
Capital receipts	(600)	(119)
Government grants and other contributions	(15,253)	(29,676)
REFCUS Adjustment	277	0
Sums set aside from revenue:		
Direct revenue contributions	(6,421)	(2,327)
MRP	(8,815)	(9,137)
CFR Adjustment	0	(2,094)
Closing Capital Financing Requirement	**214,060**	**207,826**
Increase in underlying need to borrowing (unsupported by government financial assistance)	535	(6,234)
CFR Adjustment	0	2,094
Increase/(Decrease) in Capital Financing Requirement	**535**	**(4,141)**

26. CAPITALISATION OF BORROWING COSTS

Borrowing costs are expensed as incurred and included in interest payable (Note 4).

27. LEASES

Authority as Lessee

Finance Leases

In the past the Council has acquired a variety of assets, including operational buildings and IT equipment, under finance leases. The last such lease for IT equipment has now ended and current policy is not to enter into any more. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2014 £000		31 March 2015 £000
2,616	Other Land and Buildings	2,613
59	Vehicles, Plant, Furniture and Equipment	48
2,675	**Total**	**2,661**

The authority is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the property acquired by the authority and finance costs that will be payable by the authority in future years while the liability remains outstanding.

The minimum lease payments are made up of the following amounts:

31 March 2014 £000		31 March 2015 £000
	Finance lease liabilities (net present value minimum lease payments):	
71	- current	140
468	- non current	665
1	Finance costs payable in future years	175
540	**Total minimum lease payments**	**980**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Payments	
	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000
Not later than one year	72	228	71	140
Later than one year and not later than five years	180	483	180	397
Later than five years	288	269	288	268
Total	**540**	**980**	**539**	**805**

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15 £0.064m contingent rents were payable by the authority (2013/14 £0.072m).

Operating Leases
The authority has acquired Land, Buildings and Vehicles by entering into operating leases. The minimum lease payments due under non-cancellable leases in future years are:

31 March 2014 £000		31 March 2015 £000
172	Not later than one year	205
519	Later than one year and not later than five years	736
760	Later than five years	1,265
1,451	**Total**	**2,206**

The expenditure charged to the Cultural, Environmental, Regulatory and Planning Services line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2013/14 £000		2014/15 £000
126	Minimum lease payments	172
126	**Total**	**172**

Authority as Lessor

Finance leases
The authority has leased out property at a number of sites across the borough on a finance lease basis. The authority has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the authority in future years whilst the debtor remains outstanding.

The gross investment is made up of the following:

31 March7 2014 £000		31 March 2015 £000
	Finance lease debtor (net present value of minimum lease payments):	
10	- current	10
5,340	- non current	5,330
21,325	Unearned finance income	21,015
2	Unguaranteed residual value of property	2
26,677	**Gross investment in lease**	**26,357**

The gross investment in the lease and the minimum lease payments will be received over the following period:

	Gross investment in the Lease		Minimum Lease Payments	
	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000
Not later than one year	338	338	338	338
Later than one year and not later than five years	1,357	1,360	1,357	1,360
Later than five years	24,982	24,659	24,980	24,657
Total	**26,677**	**26,357**	**26,675**	**26,355**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2014/15, £0.346m contingent rents were receivable by the authority (£0.389m in 2013/14).

Operating Leases

The authority leases out property and equipment under operating leases for the following purpose:

- For the provision of community services, such as sports facilities, tourism services and community centres.
- For economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2014 £000		31 March 2015 £000
3,360	Not later than one year	3,225
10,650	Later than one year and not later than five years	9,830
31,205	Later than five years	28,874
45,215		**41,929**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

SCHOOLS

28. DEDICATED SCHOOLS GRANT

The authority's expenditure on schools is funded primarily by Dedicated Schools Grant (DSG), which is provided by the Department for Children, Schools and Families. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. Details of the deployment of DSG receivable for 2014/15 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total Expenditure £'000
Final DSG for 2014/15 before Academy recoupment			137,407
Academy figure recouped for 2014/15			(5,993)
Total DSG figure after Academy recoupment for 2014/15			131,414
Plus: Brought forward from 2013/14			2,728
Less: Carry-forward to 2015/16 agreed in advance			(2,225)
Agreed initial budgeted distribution in 2014/15	16,919	114,998	131,917
Final budgeted distribution for 2014/15	**16,919**	**114,998**	**131,917**
Less: Actual central expenditure	(17,222)		(17,222)
Less: Actual ISB deployed to schools		(113,335)	(113,335)
Plus: Local authority contribution for 2014/15	0	0	0
Carry forward for 2015/16	**(303)**	**1,663**	**1,360**
Carry-forward to 2014/15 agreed in advance			2,225
Total carry forward 2014/15			**3,585**

The £3.585m balance is held in the DSG earmarked revenue reserve (see Note 16).

The following table shows a breakdown of the Authority's schools, by category, and the net surplus/(deficit) attributable to each.

School Category		2013/14		2014/15	
		Number of Schools	Net surplus/ (deficit) £'000	Number of Schools	Net surplus/ (deficit) £'000
Maintained Schools	Primary	32	6,410	30	5,077
	Secondary	2	2,246	2	1,439
Voluntary Aided Schools	Primary	11	2,185	11	1,265
	Secondary	2	131	2	183
Foundation		1	489	1	133
Special Schools		4	630	4	438
Total		**52**	**12,090**	**50**	**8,534**

29. PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

Property, Plant and Equipment

The authority has a Private Finance Initiative (PFI) scheme under which six secondary schools were rebuilt by a PFI operator, NewSchools Ltd. Following a partial termination of the contract in 2006, two schools were transferred to academies. In 2013, a third school also became an academy, but remains within the PFI scheme. Under the PFI contract, which runs until 2030, NewSchools Ltd are contracted to provide soft services (caretaking and facilities maintenance) to the remaining three schools and one academy, in return for an annual payment. At the end of the arrangement, the authority will retain ownership of the school land and buildings.

Value of Assets Held

The authority's accounts include school buildings constructed under the PFI scheme. In 2014/15, the school buildings were revalued upwards to £57.3m.

	31 March 2014 £000	31 March 2015 £000
Gross Value	54,002	57,295
Accumulated Depreciation	(2,446)	0
Net	**51,556**	**57,295**

Value of Liabilities

The authority has two long term liabilities relating to the original PFI scheme of six schools. The first liability is in respect of the capital works on the two schools that became academies in 2006. The second liability is in respect of the capital works incurred on the remaining three schools and one academy within the PFI scheme.

	Capital £000	Interest £000	Services £000	Total £000
Mar 2016	1,457	3,494	3,845	8,796
Mar 2017 - 2021	8,236	17,891	22,279	48,405
Mar 2022 - 2026	11,289	16,838	26,147	54,273
Mar 2027 - 2030	13,752	16,637	23,068	53,457
Liability at 31st March 2015	**34,734**	**54,860**	**75,339**	**164,932**
Liability at 31st March 2014	**36,216**	**58,326**	**78,649**	**173,190**
Liability at 31st March 2013	**37,286**	**61,389**	**81,914**	**180,589**

Partial Termination

	Capital £000	Interest £000	Services £000	Total £000
Mar 2016	597	1,062	0	1,659
Mar 2017 - 2021	3,693	4,602	0	8,295
Mar 2022 - 2026	5,223	3,072	0	8,295
Mar 2027 - 2030	5,697	939	0	6,636
Liability at 31st March 2015	**15,210**	**9,675**	**0**	**24,885**
Liability at 31st March 2014	**15,767**	**10,777**	**0**	**26,544**
Liability at 31st March 2013	**16,287**	**11,916**	**0**	**28,203**

Three Schools and One Academy

	Capital £000	Interest incl. Contingent Rent £000	Services £000	Total £000
Mar 2016	860	2,432	3,845	7,137
Mar 2017 - 2021	4,543	13,289	22,279	40,110
Mar 2022 - 2026	6,066	13,766	26,147	45,978
Mar 2027 - 2030	8,055	15,698	23,068	46,821
Liability at 31st March 2015	**19,524**	**45,185**	**75,339**	**140,047**
Liability at 31st March 2014	**20,449**	**47,549**	**78,649**	**146,646**
Liability at 31st March 2013	**20,999**	**49,473**	**81,914**	**152,386**

MEMBERS, OFFICERS AND RELATED PARTIES

30. MEMBERS' ALLOWANCES

The London Borough of Merton paid the following amounts to members of the authority during the year:

	2013/14 £000	2014/15 £000
Salaries	0	0
Allowances	766	730
Expenses	0	0
Total	**766**	**730**

31. OFFICERS' REMUNERATION

The following table shows the number of staff whose total remuneration, excluding pensions contribution but including gross salary, expense allowances, supplements, compensation for loss of office (i.e. redundancy) and benefits, exceed £50,000 in bands of £5,000.

Recent CIPFA guidance states that the disclosure should exclude all staff where the authority is not the employee i.e. teaching staff employed at voluntary aided and foundation schools. Therefore, 52 voluntary aided and foundation school employees have been excluded from 2014/15 figures and 45 voluntary aided and foundation school employees have been excluded in the restated 2013/14 figures.

Remuneration Band £	2013/14 Teaching Staff Restated	2013/14 Other Staff Restated	2014/15 Teaching Staff	2014/15 Other Staff
50,000 – 54,999	63	41	70	46
55,000 – 59,999	26	23	34	27
60,000 – 64,999	11	14	11	10
65,000 – 69,999	8	5	13	7
70,000 – 74,999	7	18	6	17
75,000 – 79,999	7	3	7	2
80,000 – 84,999	5	2	6	4
85,000 – 89,999	2	2	3	2
90,000 – 94,999	2	3	1	0
95,000 – 99,999	0	1	0	3
100,000 – 104,999	1	0	2	0
105,000 – 109,999	1	1	0	0
110,000 – 114,999	0	0	1	0
115,000 – 119,999	1	0	0	0
120,000 – 124,999	0	0	1	1
125,000 – 129,999	0	0	0	0
130,000 – 134,999	0	0	0	0
135,000 – 139,999	0	4	0	5
140,000 – 144,999	0	0	0	0
145,000 – 149,999	0	0	0	0
150,000 – 154,999	0	0	0	0
155,000 – 159,999	0	0	0	0
160,000 – 164,999	0	0	0	0
165,000 – 169,999	0	0	0	0
170,000 – 174,999	0	0	0	0
175,000 – 179,999	0	0	0	0
180,000 – 184,999	0	0	0	0
185,000 – 189,999	0	1	0	1
Total	**134**	**118**	**155**	**125**

The numbers of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below. In line with recent CIPFA guidance, 5 foundation school employees have been excluded from 2014/15 figures and one voluntary aided employee has been excluded in the restated 2013/14 figures.

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14 Restated	2014/15
£			Restated				£	£
0 - 20,000	21	48	26	15	47	63	358,554	400,409
20,001 - 40,000	4	11	10	7	14	18	390,909	494,960
40,001 - 60,000	1	2	3	1	4	3	187,732	157,939
60,001 - 100,000	0	0	0	1	0	1	0	100,000
TOTAL	**26**	**61**	**39**	**24**	**65**	**85**	**937,195**	**1,153,308**

In accordance with the Accounts and Audit Regulations, there is a legal requirement to increase transparency and accountability in Local Government for reporting the remuneration of senior employees.

- Senior employees whose salary is £150,000 or more per year must be identified by name
- Senior employees who meet the regulation's definition and whose salary is between £50,000 and £150,000 must be listed by job title. Current Directors have chosen to be named to aid transparency.

The following table provides this detail for 2014/15 and also the 2013/14 comparative year data with supporting sub-notes.

2014/15 Post holder information	Sub-Notes	Remuneration (Including fees & Allowances) £	Employer's Pension contributions £	Total £
Chief Executive Ged Curran	1	185,000	25,715	210,715
Director of Corporate Services Caroline Holland	2	135,000	18,765	153,765
Director of Community and Housing Simon Williams	3	136,096	18,917	155,013
Director of Children, Schools and Families Yvette Stanley	4	135,000	18,765	153,765
Director of Environment & Regeneration Chris Lee	5	135,000	18,765	153,765

2013/14 Post holder information	Sub-Notes	Remuneration (Including fees & Allowances) £	Employer's Pension contributions £	Total £
Chief Executive Ged Curran	6	185,000	26,085	211,085
Director of Corporate Services Caroline Holland	7	135,000	19,035	154,035
Director of Community and Housing Simon Williams	8	136,096	19,190	155,286
Director of Children, Schools and Families Yvette Stanley	9	135,000	19,035	154,035
Director of Environment & Regeneration Chris Lee	10	135,000	19,035	154,035

Sub-notes

2014/15

1. Mr G. Curran, Chief Executive, remuneration for 2014/15 was a salary of £185,000. One additional separate payment of £514.26 was received for Local Authority Gold Team duties.
2. Ms C. Holland, Director of Corporate Services, remuneration for 2014/15 was a salary of £135,000.
3. Mr S. Williams, Director of Community and Housing, remuneration for 2014/15 was a salary of £136,096.
4. Ms Y. Stanley, Director of Children, Schools and Families, remuneration for 2014/15 was a salary of £135,000.
5. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2014/15 comprised of salary of £135,000. A separate payment of £514.26 was received for Local Authority Gold Team duties.

2013/14

6. Mr G. Curran, Chief Executive, remuneration for 2013/14 was a salary of £185,000. Two additional separate payments were received, totalling £1,300, for Local Authority Gold Team duties.

7. Ms C. Holland, Director of Corporate Services, remuneration for 2013/14 was a salary of £135,000. Two additional separate payments were received, totalling £1,128, for Local Authority Gold Team duties.

8. Mr S. Williams, Director of Community and Housing, remuneration for 2013/14 was a salary of £136,096.

9. Ms Y. Stanley, Director of Children, Schools and Families, remuneration for 2013/14 was a salary of £135,000.

10. Mr C. Lee, Director of Environment and Regeneration, remuneration for 2013/14 comprised of salary of £135,000. A separate payment of £172 was received for Local Authority Gold Team duties.

32. TERMINATION BENEFITS

The authority terminated the contracts of 85 employees in 2014/15, incurring liabilities of £1.153m (£0.937m and 65 employees in 2013/14) (Note 31).

33. RELATED PARTIES

During the year, transactions with related parties arose as follows:

Central Government
Central Government has significant influence over the operations of the authority. It provides the statutory framework within which the authority operates, the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the authority has with other parties (e.g. Council Tax bills, housing benefits). Details of grants received from government departments are set out in Note 6 as well as grant receipts outstanding at 31st March 2015. The following table provides a summary of the main amounts arising in the accounts:

	2013/14 Payments / (Receipts) £000	2014/15 Payments / (Receipts) £000
Central Government		
- Revenue Support Grant	(47,470)	(39,738)
- Receipts from NNDR Pool/Business Rates	(23,841)	(23,956)
- Levy by the Environment Agency	157	157
Precepting Authorities and Other Bodies		
- Greater London Authority precept	37,349	32,228
Levying Bodies – Levies paid		
- London Pensions Fund Authority	268	267
- Lee Valley Authority	220	214
- Wimbledon and Putney Commons Conservators	269	293

Members
Members of the authority have direct control over the financial and operating decisions of the authority. The total of members' allowances paid in 2014/15 is shown in Note 30.

This disclosure note has been prepared using the authority's Register of Members' Interest in addition to a specific declaration obtained in respect of related party transactions from Members and Senior Officers. The authority issued 60 standard letters to current Members and 22 letters to former Members who held office in 2014/15; to date, 56 and 22 current and former Members have responded respectively.

During 2014/15, members of the authority (or members of their immediate family or household) had links with the following organisations, which undertook related party transactions with LBM to the gross value of £0.969m (net £0.323m). The amounts disclosed below are those material to either party of the related party transaction (i.e. the London Borough of Merton (LBM) or the other entity) and therefore explains the large variance in the amounts identified for disclosure.

Organisation	Nature of transaction	2014/15 £000
Deen City Farm	Grant Received from LBM	123
Endeavour Youth Club	Grant Received from LBM	30
Friends in St Helier	Grant Received from LBM	29
Merton and Morden Guild	Grant Received from LBM	83
Merton Priory Homes (MPH)	Capital receipts paid to LBM as part of VAT sharing agreements with MPH	(646)
South Wimbledon Community Association	Funding received from LBM	6
Merton Community Transport	Grant Received from LBM	52
Total		**(323)**

Senior Officers

Senior officers of the authority also have direct control over the financial and operating decisions of the authority. Senior officers are required to make a specific declaration in respect of related party transactions. The authority issued 28 standard letters to current senior officers; there have been 28 responses to date.

One senior officer is director of CHAS 2013 Ltd (see note 38). One senior officer holds the positions of Governor at South Thames College and Director of London Grid for Learning. During 2014/15 the authority made payments and grants to these organisations of £416,000 and £675,000 respectively. One senior officer is a member of the NHS Merton CCG Board which made payments and grants of £3,971,000 in 2014/15. In all instances the grants were made with proper consideration of declarations of interest. Otherwise, senior officers within the authority did not hold any positions in other organisations which would enable them to significantly influence the policies of the authority and result in a related party transaction of a material nature.

Voluntary Organisations

The authority made grants and payments totalling £0.323m to voluntary and other organisations whose senior management included members of the authority (or members of their immediate family or household). These payments are summarised in the above disclosure on members' related party transactions. In all instances the grants were made with proper consideration of declarations of interest. The authority's Register of Members' Interest is open to public inspection on the authority's website.

Pension Fund
The Pension Fund is a separate entity from the authority with its own Statement of Accounts. In 2014/15 an administration fee of £0.332m was paid by the Fund to the authority (£0.426m in 2013/14, See Pension Fund, Note 11).

PENSION FUND

34. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is a multi-employer defined benefit scheme. The scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. In 2014/15, the employer's contribution was 14.1% (unchanged from 2013/14). Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the Authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The Authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. The Authority is not liable to the scheme for any other entities' obligations under the plan.

The Council also pays an employer's contribution of 14.0% (unchanged from 2013/14) to the NHS Pension Scheme, for staff who have transferred to the Council but remain in the NHS scheme. The NHS scheme is currently a defined benefit scheme; staff benefits are linked to their average earnings in the final ten years of employment. From 1st April 2015, it will become a Career Average Revalued Earnings scheme.

Contributions for the current and previous year are set-out in the table below:

	2013/14 Restated £000	2014/15 £000
Council's contribution to DfE teacher's pension scheme	7,152	7,303
Council's contribution to NHS pension scheme	143	130

Assuming a 1% staff pay award in 2015/16, an estimate of the contributions to be paid in the next financial year would be:

DfE Teacher's Pension Scheme: £7.376m
NHS Pension Scheme: £0.131m

35. DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes
As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post employment benefits. Although the benefits will be payable in the future, (when employees retire), the authority is required to disclose current payments towards employees' future entitlements.

The authority participates in two post employment schemes:

- The Local Government Pension Scheme is administered locally by the London Borough of Merton, in accordance with the Local Government Pension Scheme Regulatory Framework 2014/15. This is a defined benefit, final salary scheme, whereby both the authority and employees make contributions into a fund. The contributions are calculated with the aim of balancing pension liabilities and investment assets. The scheme accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2014/15, which governs the preparation of financial statements for Local Government Pension Scheme funds.
- Discretionary post retirement benefits to fund early retirement. This is an unfunded defined benefit arrangement, liabilities are recognised when awards are made but there is no accompanying investment built-up to meet these pension liabilities, so cash has to be generated to meet actual pension payments as they fall due.

Transactions Relating to Post-employment Benefits

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

The cumulative remeasurement of the net defined benefit liability/asset recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2015 is a loss of £68.625m (a loss of £20.162m in 2013/14).

	Local Government Pension Scheme	
	2013/14	2014/15
	£000	£000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Current Service Cost	17,760	19,223
Finance and Investment Income and Expenditure		
Net interest on defined liability	8,027	9,477
Administration	458	393
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**26,245**	**29,093**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability/asset	20,162	68,625
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**46,407**	**97,718**
Movement in Reserves Statement:		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(26,245)	(29,093)
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	16,955	28,225

Assets and Liabilities in Relation to Post-employment Benefits
Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Local Government Pension Scheme	
	2013/14	2014/15
	£000	£000
Opening Defined Benefit Obligation	**612,841**	**654,698**
Current Service Cost		
Interest Cost	25,987	28,412
Change in financial assumptions	12,719	90,061
Change in demographic assumptions	14,320	0
Experience loss/(gain) on defined benefit obligation	(11,226)	1,048
Liabilities extinguished on settlements	(846)	(1,210)
Estimated benefits paid net of transfers in	(19,736)	(20,444)
Past service costs including curtailments	702	925
Contributions by Scheme participants	4,423	4,942
Unfunded pension payments	(1,849)	(1,919)
Defined Benefit Obligation at end of period	**654,698**	**775,379**

Reconciliation of fair value of the scheme (plan) assets:

	Local Government Pension Scheme	
	2013/14 £000	2014/15 £000
Opening fair value of Scheme assets	**417,967**	**430,372**
Interest on assets	17,960	18,935
Return on assets less interest	(2,707)	22,484
Other actuarial gains/(losses)	(1,642)	0
Actuarial gains (losses)	-	-
Administration expenses	(458)	(393)
Contributions by employer including unfunded	16,955	28,225
Contributions by Scheme participants	4,423	4,942
Estimated benefits paid plus unfunded net of transfers in	(21,585)	(22,363)
Settlement prices received/(paid)	(541)	(642)
Fair value of Scheme assets at end of period	**430,372**	**481,560**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The estimated asset allocation for LBM as at 31st March is as follows:

	2013/14		2014/15	
LBM asset share - bid value	£000	%	£000	%
Equities	314,172	73	348,588	72
Gilts	98,986	23	115,796	24
Property	12,911	3	13,577	3
Cash	4,303	1	3,599	1
Total	**430,372**	**100**	**481,560**	**100**

Scheme History

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Present value of scheme liabilities					
The Local Government Pension Scheme (LGPS)	(443,887)	(529,492)	(589,722)	(630,064)	(748,920)
Unfunded Liabilities	(10,491)	(23,447)	(23,119)	(24,634)	(26,459)
Fair value of assets in the LGPS	351,387	363,253	417,967	430,372	481,560
Surplus / (Deficit) in the scheme	(102,991)	(189,686)	(194,874)	(224,326)	(293,819)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £293.8m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. The authority, through the advice of the actuary, provides additional employers contributions to the fund in support of the recovery of past service deficiencies over a twelve year period. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for Estimating Assets and Liabilities

	2013/14	2014/15
Long Term expected rate of return on assets in the scheme:	%	%
Mortality Assumptions	Years +	Years +
Longevity at 65 for current pensioners retiring today at 65:		
Men	22.3	22.4
Women	25.5	25.7
Longevity at 65 for future pensioners retiring in 20 years at 65:		
Men	24.5	24.6
Women	27.9	28.0
	%	%
Rate of Inflation	2.8	2.4
Rate of increase in salaries	4.6	4.2
Rate of increase in pensions	2.8	2.4
Rate for discounting scheme liabilities	4.4	3.3
Take up option to convert annual pension into retirement lump sum	50.0	50.0

The current estimate of the duration of the Council's liabilities is 18 years.
The following assumptions have also been made:
Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age.
10% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

Sensitivity Analysis
A sensitivity analysis on the major assumptions used in calculating the Fund liabilities is shown in the following table.

Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	761,669	775,379	789,350
Projected service cost	22,380	22,907	23,447
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	777,240	775,379	773,530
Projected service cost	22,918	22,907	22,896
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	787,599	775,379	763,385
Projected service cost	23,440	22,907	22,386
Adjustment to mortality age rating assumption	+1 Year	None	-1 Year
Present value of total obligation	748,014	775,379	802,997
Projected service cost	22,121	22,907	23,700

The sensitivity analysis shows the impact of adjusting individual assumptions. The analysis does not show the impact of adjusting combinations of assumptions, as this cannot easily be measured.

Estimation of Contributions to be paid 2015/16
The table below shows the estimated contributions to be paid to the plan during 2015/16, assuming a 1% staff pay award for 2015/16.

	2014/15 Actual £000	2015/16 Estimated £000
Employers contributions -normal	8,760	8,847
Employers contributions - Deficit Funding Contributions (Additional)	14,848	4,896
Early Retirements (Additional)	144	144
Employees Contributions	4,121	4,162
Total	**27,873**	**18,050**

Associated Risks
Participating in a defined benefit pension scheme means that the Council is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.

- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way.

- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.

- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the London Borough of Merton Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Council e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

OTHER DISCLOSURE NOTES

36. EVENTS AFTER BALANCE SHEET DATE

To date, there have been no post balance sheet events.

37. ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations during 2014/15.

38. INTEREST IN SUBSIDIARIES & JOINT VENTURES

Subsidiary

CHAS 2013 Ltd was established as a private company in June 2013. It provides businesses with health and safety pre-qualification assessments to nationally recognised standards.

CHAS 2013 Ltd is a wholly owned subsidiary of LB Merton, based in the council's offices at the Civic Centre in Morden. Its Board of Directors is chaired by LBM's Director of Corporate Services.

Prior to June 2013, CHAS had operated as a trading account within LB Merton (see Note 39).

LBM's investment in CHAS 2013 Ltd is recognised and measured at cost in the Council's Balance Sheet. LBM is exposed to variable returns from CHAS 2013 Ltd. In 2014/15, CHAS 2013 Ltd's profit after tax was £0.5m (£0.8m profit in 2013/14). Dividends received by LBM from CHAS 2013 Ltd will be recognised within the Council's Comprehensive Income and Expenditure Statement (CIES). No dividend was declared in either 2013/14 or 2014/15.

Separate from any dividends, CHAS 2013 Ltd also makes an annual licence fee payment to LBM, for use of intellectual property owned by the Council. In 2014/15, the licence fee was £0.8m, which has been recognised within Financing & Investment Income & Expenditure in the CIES.

Audited abbreviated accounts of CHAS 2013 Ltd are filed with Companies House and available on request from:

London Borough of Merton
Civic Centre
London Road
Morden
SM4 5DX

On the grounds of materiality, it is considered unnecessary to produce Group Accounts which consolidate CHAS 2013 Ltd with the single entity accounts of the Council. This is because they would not have a material effect on the overall financial statements and therefore their inclusion would not provide any further benefit to the users of the Statement of Accounts.

Joint Venture

The Merton and Sutton Joint Cemetery Board (MSJCB) oversees the Merton and Sutton Joint Cemetery, which is situated on Garth Road in Morden.

MSJCB is jointly controlled by the London Boroughs of Merton and Sutton. Any cash balance belonging to MSJCB is held by LB Merton in its single entity Balance Sheet as a debtor. At 31/03/2015, there was a net debtor balance for MSJCB of £0.062m (net debtor balance of £0.176m at 31/03/2014).

On the grounds of materiality, consolidated Group Accounts for MSJCB and LB Merton have not been produced.

Audited accounts of MSJCB are available on request from:

London Borough of Merton
Civic Centre
London Road
Morden
SM4 5DX

39. TRADING OPERATIONS

The authority has established trading units where the service is required to operate in a commercial environment and balance its budget by generating income from other parts of the authority or from other organisations. A brief description is given below:

- Printing and Graphic Design: design and printing of official documents.
- Translation Services: provides translation and interpreting services.
- Transport: recharged income and expenditure for service department vehicles
- Contractors Health and Safety Assessment (CHAS) provides health and safety assessments for other local authorities and businesses. On 3rd June 2013, CHAS commenced trading as a private limited company (see Note 38). Both 2013/14 and 2014/15 CHAS turnover and expenditure relate to the period 1st April 2013 to 2nd June 2013. The 2014/15 figures are an adjustment to the prior year.

Included within Financing and Investment Income and Expenditure		2013/14 £000	2014/15 £000
Printing and Graphic Design	Turnover	(359)	(421)
	Expenditure	259	313
	(Surplus)/Deficit	**(99)**	**(108)**
Translation Services	Turnover	(422)	(465)
	Expenditure	368	417
	(Surplus)/Deficit	**(55)**	**(48)**
Transport	Turnover	(8,555)	(10,109)
	Expenditure	9,184	9,948
	(Surplus)/Deficit	**630**	**(162)**
Contractors Health and Safety Assessment Scheme (CHAS)	Turnover	(689)	9
	Expenditure	514	(20)
	(Surplus)/Deficit	**(175)**	**(11)**
All trading operations		**2013/14 £000**	**2014/15 £000**
	Turnover	(10,025)	(10,987)
	Expenditure	10,325	10,658
Total	**(Surplus)/Deficit**	**300**	**(329)**

40. INVENTORIES

The stock balance of £0.068m in 2014/15 (£0.211m in 2013/14) represents the complete stock relating to the Partnership Agreement with the Merton Clinical Commissioning Group and Integrated Community Equipment Services (ICES).

	Consumable Stores	
	2013/14 £000	2014/15 £000
Balance outstanding at the start of the year	**243**	**211**
Purchases	751	738
Recognised as an expense in the year	(782)	(882)
Balance outstanding at year-end	**211**	**68**

41. POOLED BUDGETS – Partnerships - Section 75

During 2014/15 the authority has continued to operate the Partnership Agreements with the Merton Clinical Commissioning Group, under Section 75 of the National Health Service Act 2006, to provide integrated community equipment services (ICES). This includes the continued operation of the pooled funds in respect of these services.

POOLED FUND FOR COMMUNITY EQUIPMENT SERVICES IN MERTON MEMORANDUM ACCOUNT	Total 2013/14 £000	Total 2014/15 £000
INCOME		
PARTNERS' CONTRIBUTIONS		
Brought forward	**302**	**310**
LB Merton	341	330
Merton CCG	255	247
Additional From LB Merton	200	200
TOTAL CONTRIBUTIONS	**1,098**	**1,086**
EXPENDITURE		
Community Equipment Services	751	738
Stock Adjustment	31	143
Management & Support Costs	6	6
TOTAL EXPENDITURE	**788**	**887**
NET (UNDER) / OVERSPEND CARRIED FORWARD	**(310)**	**(199)**

The pooled budget net underspend is included within Creditors.

42. EXTERNAL AUDIT COSTS

The authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the authority's external auditors:

	2013/14 Re-stated £000	2014/15 £000
Fees payable to the External Auditor with regard to audit services carried out by the appointed auditor for the year	209	191
Rebate received from the Audit Commission	(19)	0
Sub total	**189**	**191**
Fees payable to the External Auditor for the certification of grant claims and returns for the year	63	38
Fees payable to the External Auditor for other services provided in year	10	10
Total	**262**	**239**

In 2014/15, the Council received a £19,397 rebate from the Audit Commission, relating to the 2013/14 audit fee. This was offset by £22,000 additional audit fees, invoiced in 2014/15 but relating to the 2013/14 audit.

The 2013/14 figures have been restated to reflect the updated external audit costs.

43. TRUST FUNDS

Funds for which the authority acts as custodian trustee are displayed in the tables below.

2014/15	Income £000	Expenditure £000	Assets £000	Liabilities £000
LBM Funds				
Tamworth Recreation External Investments The Investment with Black Rock Merrill Lynch investment managers held on behalf of Tamworth Recreation Grounds. This is the investment's market value.			157	
Tamworth Recreation Ground & Allotment This Trust Fund was set up to fund works at Tamworth Recreation Ground and allotments. Amount shows all internal funds held by LBM on behalf of Tamworth. Established by the authority pre 1990s			15	
Maintenance of Graves This Trust Fund was set up for the maintenance of graves in perpetuity. The amount shows all internal funds held in LBM bank accounts. Established pre 1990s from residence estates naming LBM as a beneficiary			23	
Allotments for Working Men Established in 1922 to provide allotment gardens for working men at the frontage to Cambridge Road situated in Cottenham Park, Wimbledon. The area covered being 10.5 acres.			1	
Rock Terrace Trust Established under the indenture dated 19th March 1925. LBM holds the premises "to the intent that the same shall be held used and enjoyed as an open space for the use and recreation of the public"	1		60	
Total	**1**		**256**	

The £256,000 total comprises £157,000 held in an external investment fund, which is shown at market value, and £99,000 cash held in the authority's bank account. The £99,000 is shown within Short Term Creditors on the Balance Sheet.

2013/14	Income £000	Expenditure £000	Assets £000	Liabilities £000
LBM Funds **Tamworth Recreation External Investments** The Investment with Black Rock Merrill Lynch investment managers held on behalf of Tamworth Recreation Grounds. This is the investment's market value.			148	
Tamworth Recreation Ground & Allotment This Trust Fund was set up to fund works at Tamworth Recreation Ground and allotments. Amount shows all internal funds held by LBM on behalf of Tamworth. Established by the authority pre 1990s			15	
Maintenance of Graves This Trust Fund was set up for the maintenance of graves in perpetuity. The amount shows all internal funds held in LBM bank accounts. Established pre 1990s from residence estates naming LBM as a beneficiary	1		23	
Allotments for Working Men Established in 1922 to provide allotment gardens for working men at the frontage to Cambridge Road situated in Cottenham Park, Wimbledon. The area covered being 10.5 acres.			1	
Rock Terrace Trust Established under the indenture dated 19th March 1925. LBM holds the premises "to the intent that the same shall be held used and enjoyed as an open space for the use and recreation of the public"	1		59	
Total	**2**	**0**	**246**	**0**

TECHNICAL ANNEX – ACCOUNTING POLICIES

44. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the authority's transactions for the 2014/15 financial year and its position at the year end of 31st March 2015. The authority is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2011, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.
- Revenue from the provision of services is recognised when the authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the authority's financial performance.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes to accounting policies are only made when required by proper accounting practices, or when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible non-current assets attributable to the service.

The authority is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the Minimum Revenue Provision (MRP) in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Depreciation is provided for on all non-current assets (other than land and investment properties) with a determinable finite life, and is calculated on a straight-line basis over the asset's estimated useful economic life.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual and sick leave and non-monetary benefits in lieu of salary (e.g. nursery vouchers, bicycles), where material for current employees. They are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlement (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, if these are available, being the period in which the employee takes the benefit. If these are not available, the accrual is made at the wage and salary rates of the year of account. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the individual services, within the Cost of Services line in the Comprehensive Income and Expenditure Statement when the authority is demonstrably committed to the termination of the employment of an officer or group of officers or has made an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits

Employees of the Authority are members of the following separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).
- The National Health Service Pension Scheme, administered by NHS Pensions.
- The Local Government Pensions Scheme, administered by the London Borough of Merton.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

However, the arrangements for the teachers' and NHS schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 3.3%.
- The assets of the Pension Fund attributable to the Authority are measured at fair value:

    – quoted securities: current bid price
    – unquoted securities: professional estimate
    – unitised securities: current bid price
    – property: market value

The change in the net pensions liability is analysed into the following components:

Service cost comprising:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

- the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Contributions paid to the Pension Fund:

- Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Where financial instruments are identified as impaired because of a likelihood arising from a past event that amounts due under the contract will not be made, the asset is written down and a charge made to the relevant service.

For most of the borrowings that the authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year according to the loan agreement.

Financial Assets
Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables
Loans and receivables are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans that the authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where premiums and discounts are charged to the Comprehensive Income and Expenditure Account, the Council charges the whole amount incurred in the year.

In respect of soft loans, where the interest foregone is material, the Council will recognise it in the CIES.

x. Government Grants and Contributions
Whether paid on account, by instalments or in arrears, revenue grants and third party contributions and donations are recognised as due to the authority when there is reasonable assurance that:

- the authority will comply with the conditions attached to the payments, and
- the revenue grants or contributions will be received.

Amounts recognised as due to the authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the revenue grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Sums advanced as revenue grants and contributions for which conditions have not been satisfied and are unlikely to be satisfied are carried in the Balance Sheet as creditors. Where conditions are not satisfied but are expected to be met, these are classified as Receipts in Advance. When conditions are satisfied, the revenue grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grants have yet to be used to finance capital expenditure, they are posted to the Capital Grants Unapplied reserve. Where they have been applied, they are posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Business Improvement Districts
A Business Improvement District (BID) is a precisely defined area within the local authority's boundaries within which the businesses have voted to invest collectively in local improvements to enhance their trading environment. The authority has two active BIDs and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy
The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

xi. Heritage Assets
Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the authority in pursuit of its overall objectives in relation to the maintenance of heritage. The majority of the authority's heritage assets are held in the Civic Centre, with a number of paintings of minor value held in the authority's libraries around the borough. Heritage assets are measured at valuation in accordance with FRS30 but where it is not possible to obtain a valuation at a cost which is commensurate with the benefit to the users of the financial statements, heritage assets are measured at historical cost (less any depreciation, amortisation and impairment). Depreciation or amortisation is not required on assets with indefinite lives.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the authority.

Internally generated assets are capitalised where it can be demonstrated that the project is technically feasible and is intended to be completed (with adequate resources being available) and the authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase. Research expenditure cannot be capitalised. Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiii. Interest in Subsidiaries and Other Entities

The authority has reviewed its relationships with companies and external organisations in accordance with the Code guidelines. In 2014/15, the authority has one subsidiary and one joint venture. The authority has not published Consolidated Group Accounts on the grounds of materiality. Details of the subsidiary and jointly controlled entity are disclosed in Note 38.

xiv. Inventories and Long Term Contracts

The inventory balance is the Council and the Merton Clinical Commissioning Group's shared value of the aids and adaptations stock owned by the Pooled Account. The stock is maintained in partnership with Croydon Integrated Procurement Hub (IPH). Inventories are measured at the lower of cost and current replacement cost.

xv. Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation. These arrangements are set out below:-

<u>Shared Human Resources Service:</u> this is a cost-sharing arrangement with the London Borough of Sutton which administers the service and recharges this authority. This recharged cost is accounted for as a rechargeable overhead in the Comprehensive Income and Expenditure Account.

<u>South London Waste Partnership (SLWP):</u> the SLWP is a joint operation with the Royal Borough of Kingston for the collection and disposal of waste. RB Kingston recharges the authority for its share of the cost and this is accounted for as part of the Cultural, Environmental and Planning Service in the Comprehensive Income and Expenditure Account. The SLWP is managed by a joint committee of officers which cannot contract on its own behalf but must do so through one of the participating boroughs.

<u>South London Legal Partnership:</u> this is a cost-sharing arrangement with the London Borough of Richmond, London Borough of Sutton, and the Royal Borough of Kingston-Upon-Thames. The London Borough of Merton administers the service and recharges the other authorities with their share of the cost.

<u>Pooled Budget:</u> this is a cost-sharing arrangement with the Merton Clinical Commissioning Group. The authority's contribution is accounted for in the Adult Social Care line in the Comprehensive Income and Expenditure Account. The Balance Sheet contains the value of the pooled aids and adaptations stock.

<u>Greenwich Leisure Limited (GLL):</u> the authority pays GLL to run its leisure centres but retains ownership of those assets. The contribution to GLL is accounted for in the Cultural and Related Services line in the Comprehensive Income and Expenditure Account and the assets are held in the Balance Sheet. The authority has no control over the strategic, financial or operating decisions of the entity.

<u>NewSchools:</u> This company is the authority's PFI provider for its school PFI project. This authority makes an annual unitary payment to NewSchools, which is recorded in the Children's and Education Services line in the Comprehensive Income and Expenditure Account (as payment for services) and in Financing and Investment Income and Expenditure (as payment for

loans taken out by NewSchools to finance the building of the schools under the scheme). The arrangement with NewSchools is purely contractual.
Regulatory Services Partnership (RSP): The RSP administers key public protection services including Environmental Health, Trading Standards and Licensing. The partnership is based on a cost-sharing arrangement with the London Borough of Richmond. London Borough of Merton administers the service and recharges Richmond with their share of the cost. The service is governed via a Management Board and a Joint Regulatory Committee.

xvi. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

The key consideration for classifying the authority's leases are as follows:-

- Whether the Present Value of the Minimum Lease Payments amounts to substantially all the fair value of the leased asset.
- The duration of the lease agreement in relation to the anticipated economic useful life of the asset.
- Terms in the lease relating to the transfer (or lack thereof) of risks and rewards in relation to the asset.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, Plant and Equipment (PPE) held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the authority are added to the carrying amount of the asset. Contingent rents are charged as expenses in the periods in which they are incurred.
Lease payments are apportioned between :

- a charge for the acquisition of the interest in the PPE – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction between the Capital Adjustment Account and the Movement in Reserves Statement for the difference between the two.

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased PPE. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor
Finance Leases
Where the authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:
- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xvii. Overhead and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Code of Practice 2014/15 (SerCOP). The total absorption costing principle is used – the net cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the authority's status as a multifunctional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xviii. Plant, Property and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year, are classified as Property, Plant and Equipment (PPE).

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

De Minimis

Capital expenditure of under £10,000 is charged directly to the Comprehensive Income and Expenditure account.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The authority does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:
- infrastructure and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, Depreciated Replacement Cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for as follows:
- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, being the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Revaluations
The revaluations of the authority's properties, which have been performed during the financial year, were carried out by an internal valuer who is a member of the Royal Institution of Chartered Surveyors.

Revaluations are undertaken as at 1st April. A review is then conducted at year-end to ensure the revaluations remain materially correct at 31st March. Where a material movement has occurred in-year, a further revaluation of affected properties is undertaken at 31st March.

Assets regarded by the authority as operational were valued on the basis of Existing Use Value (EUV) or, where this could not be assessed because there was no market for the subject asset, by the Depreciated Replacement Cost method (DRC), subject to the prospect and viability of the occupation and use.

Parks, allotments, cemetery land and crematorium land, which are non-operational are classified as Community Assets. Community Assets are carried at fair value.
Assets regarded by the authority as non-operational such as Assets Held For Sale were valued on the basis of fair value as defined by The International Valuation Standard Council. Assumptions for fair value are similar if not identical to market value. Fair value represents the price that would be reasonably agreed between two specific parties for the exchange of an asset. Although the parties may be unconnected and negotiating at arm's length, the asset is not necessarily exposed in the wider market. In addition, the price agreed may be one that reflects the specific advantages (or disadvantages) of ownership to the parties involved rather than the market at large.

Impairment
Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation
Depreciation is provided for on all non-current assets (other than land and assets under construction) with a determinable finite life, and is calculated on a straight-line basis over the asset's estimated useful economic life.

Depreciation is calculated on the following bases:
- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer

- vehicles, plant, furniture and equipment – a percentage of the value of each class of asset in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation over 25 years.

Where a Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation
Componentisation is a method used for accounting and financial reporting purposes, to ensure assets are accurately included on the Balance Sheet and that the consumption of economic benefit of these assets is accurately reflected over their individual useful lives through depreciation charges.

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires the separate recognition of two or more significant components of an asset for depreciation purposes – i.e. as if each component was a separate asset in its own right.

The authority will follow these requirements where significant components of material items of assets have been identified.
A component is defined as such part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item, where the value of the component is 5% or more of the total gross carry value of the asset.

Even if the cost of a component is significant in relation to the total cost of an item of PPE, from an accounting perspective it is not necessary to identify the value of that component if its useful life and required method of depreciation is in line with the overall asset.
Where there are a number of parts of the same asset which have the same useful life and depreciation method, such parts will be grouped in determining the depreciation charge.

Componentisation has not been applied retrospectively. It will be considered only for new revaluations carried out after 1st April 2010, when enhancement and/or acquisition expenditure is incurred after that date.

Component accounting will only be considered and applied in cases where the omission to recognise and depreciate a separate component may result in material differences in the statement of accounts.

Componentisation will not be applied to items of PPE where the depreciation of the item as a single asset is unlikely to result in a material misstatement of either the depreciation charges or the carrying amount of the PPE.

The authority recognises two primary components of a property asset which will be accounted for separately namely:
- Land
- Buildings

Componentisation is not applicable to land as land is non-depreciable and has an infinite life.

The authority also recognises three secondary components of the buildings primary component; namely:

- Structure (including the building sub-elements of substructure, superstructure, finishes, sanitary-wares, disposal installation, but excluding fittings and furnishings)
- Services (including sub-elements of mechanical and electrical services installation such as plant and lifts)
- External Work (including sub-elements of hard landscaping, but excluding playground equipment and soft landscaping)
- In addition, there may be cases where the Valuer feels a particular asset contains unusual components that are deemed material. In these instances specific components would be created specifically for that asset.

On the grounds of materiality, the authority has determined that any building with a gross carry amount of less than £1,000,000 will not be recognised as having secondary components of the building.

At revaluation the basis for componentisation is fair value (EUV) for the relevant asset class.

Where a component is replaced or restored (i.e. enhancement) the carrying amount of the old component shall be derecognised before reflecting the enhancement (applicable from 1st April 2010). In respect of property, on grounds of materiality and practicality, this is applied where the new part of the component is greater than £100,000 or, in the case of lesser amounts, where the existing component is specifically identifiable. In respect of all infrastructure expenditure, the equivalent depreciated carrying amount is derecognised.

Disposals and Non-Current Assets Held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this carrying amount and the fair value less costs of sale, or recoverable amount. Where there is a subsequent reduction in fair value less costs of

sale, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying or recoverable amount. The carrying amount used is that before the assets were classified as held for sale adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale. The recoverable amount of the asset is at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are credited to the Capital Receipts Reserve, and can only be used for new capital investment, to fund debt redemption premiums (or set aside to reduce the authority's underlying need to borrow (the capital financing requirement)). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xix. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor. As the authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the authority at the end of the contracts for no additional charge, the authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the Property, Plant and Equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-Current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the authority.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost - an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- Lifecycle replacement costs – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

xx. Provisions, Contingent Liabilities and Contingent Assets

Provisions

1. General

The Council makes provision where it has a legal or constructive obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate can be made of the amount of the obligation. The council does not normally create provisions for sums less than £250,000.

2. Insurance Fund

The Insurance Fund provides an integral part of our risk management policy to meet claims excluding catastrophic losses, which are insured by an external provider. The level of the fund is based upon a statistical assessment of claims information. The authority makes provision for its legal obligations for claims as at the 31st March each year. Where there is a possibility of further claims for which at this stage the authority is not legally obligated, on grounds of prudence the authority sets aside further sums in a separate Insurance Reserve. The expected timing of a future transfer of economic benefit depends upon the settlement of claims and no assumption has been made in respect of these.

Contingent Liabilities

These are possible liabilities as a result of a past event that will only materialise as a result of an uncertain future event. The authority's policy is to disclose a contingent liability when this criterion has been met.

Contingent Assets

These are possible assets as a result of a past event that will only materialise as a result of an uncertain future event. The authority's policy is to disclose a contingent asset when this criterion has been met.

xxi. Reserves

The authority sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure from a Usable Reserve is incurred it is charged to the appropriate service in that year and forms part of the Surplus or Deficit in the CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge to Council Tax for the expenditure.

The authority has a protocol for setting up and managing usable reserves. Under this protocol usable revenue reserves require the approval of the Director of Corporate Services.

Unusable Reserves are kept to manage accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the authority.

xxii. Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income & Expenditure Statement in the year. Where the authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

xxiii. VAT

Income and expenditure are shown net of VAT. VAT is included in the Comprehensive Income and Expenditure account only where it is irrecoverable.

xxiv. Acquired Operations

Where the authority acquires an operation during the financial year, the gross income and expenditure for the acquired operation will be disclosed separately on the face of the Comprehensive Income & Expenditure Statement, where material.

In the following financial year, the operation will be consolidated into the relevant Comprehensive Income and Expenditure line, as directed by SeRCOP.

xxv. LOCAL AUTHORITY SCHOOLS IN ENGLAND AND WALES

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

45. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The 2015/16 Code of Practice will include updates to reflect changes to the following seven accounting standards:

- IFRS 13 Fair Value Measurement (May 2011);
- IFRIC 21 Levies;
- IFRS 1 Meaning of effective IFRSs;
- IFRS 3 Scope exceptions for joint ventures;
- IFRS 13 Scope of paragraph 52 (portfolio exception); and
- IAS 40 Clarifying the interrelationship of IFRS 3 Business Combinations
- IAS 40 Investment Property when classifying property as investment property or owner-occupied property

The amendments are not expected to have a material impact on LBM's Statement of Accounts.

The Code requires implementation from 1 April 2015 and therefore there is no impact on the 2014/15 Statement of Accounts.

46. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying certain polices set out in Note 44, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- It is expected that future levels of funding will be reduced however this is not expected to influence the authority's ability as a going concern.

- CHAS 2013 Ltd and MSJCB excepted, the authority's relationships with other bodies does not fall within the scope of group accounts. The authority has not published consolidated group accounts on the grounds of materiality.
- The authority is party to a number of joint arrangements; these are set-out in Accounting Policy XV – Jointly Controlled Operations.
- Apart from those already declared there are no further service concessions.
- The potential outcomes from legal claims are not expected to be material to the authority's accounts.
- As part of the voluntary stock transfer agreement, which was reached with Merton Priory Homes (MPH) in March 2010, VAT that can be reclaimed from HM Revenue and Customs in respect of specific qualifying works is shared. This arrangement is unique to authorities and registered social landlords upon transfer. The authority's share of reclaimable VAT amounted to £1.2m in 2014/15 and following completion of delayed works from the 2014/15 programme an additional £2.0m could become due.
- The authority has agreed to share any proceeds of former house sales if they are subsequently sold by Merton Priory Homes. The agreement lasts until 31 March 2040 and the amount received will depend on the number of sales each year. The authority's share of the proceeds for each sale is treated as a capital receipt in the year that the property is sold.
- The authority has given a number of warranties to Merton Priory Homes and Circle Anglia Treasury, the Prudential Trustee Company Ltd and others in conjunction with the stock transfer. The warranties relate to various legal, property and other issues, including public liabilities in relation to exposure to asbestos up to 2050 with no financial limit. These warranties were taken into consideration in setting the level for the Council's insurance fund.
- Accounting for Schools – Consolidation. In line with accounting standards and the Code on group accounts and consolidation, all maintained schools in the borough are considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council's single entity accounts.
- Accounting for Schools – Balance Sheet Recognition of Schools.
  The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or Governing Body own the assets or rights to use the assets have been transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Council, school or Governing Body then it is not included on the Council's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Council, school or school Governing Body.

47. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the London Borough of Merton about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the London Borough of Merton's Balance Sheet at 31st March 2015 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:

Item:
Property, Plant and Equipment (PPE)

Uncertainty:
Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate and funding position may have an impact on the levels of spending on repairs and maintenance, thus impacting on the useful lives assigned to assets.

Effect if actual result differs from assumptions:
PPE of £433.619m is included in the accounts. Therefore a 1% movement in value would result in a change of £4.336m. The average PPE depreciation period is 27 years. A difference of one year would result in a change in the depreciation charge of approximately £0.6m.

Item:
Provisions

Uncertainty:
The authority has made provisions of £4.013m for insurance claims. The fund is used to pay claims for which the authority is self insured. The level of the fund is calculated by a firm of actuaries and is based on a number of assumptions. The current funding climate for local authorities raises the risk of cut backs on repairs and maintenance works, which could lead to greater incidence of claims against the authority.

Effect if actual result differs from assumptions:
If the actuals differ from the assumptions then it is possible that the Insurance Fund would be insufficient to cover the liabilities of the authority and further demands would be made on the General Fund. If future claims exceeded the insurance fund provision by 1%, this would result in an additional £0.4m charge to the General Fund.

Item:
Provision for NDR appeals

Uncertainty:
The authority has made provision of £2.730m for its share of appeals against business rates charges. The amount represents an estimate of the potential effects of appeals and proposals that may be settled in future years. It is based upon the most recent outstanding Rating List proposals provided by the Valuation Office Agency. The potential effect of the proposals is an estimate based on changes in comparable properties, market trends and other valuation issues including the potential for certain proposals to be withdrawn.

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Effect if actual result differs from assumptions:
If the actuals differ from the assumptions this will impact on the NDR surplus/deficit of the Collection Fund for following years, as the cash collected from NDR payers will be different to that anticipated in calculated estimates of NDR collection which are used to determine the Council's retained income. Similarly, there is a potential impact on possible future safety net and levy payments introduced in the business rate retention scheme, these are calculated by comparing actual amounts collected to the Council's NDR funding baseline.

Item:
Pension Liability

Uncertainty:
Estimation of the net £293.820m pension liability depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the authority with expert advice about the assumptions to be applied.

Effect if actual result differs from assumptions:
The assumptions interact in complex ways and changes in assumptions cannot be easily measured. Refer to Note 35 for further detail.